

Message Text

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C O N F I D E N T I A L GEORGETOWN 0500

DEPARTMENT PASS AID LA/CAR, COMMERCE OIM/CAR

E.O. 11652: GDS
TAGS: ECON, GY
SUBJECT: GUYANA-ECONOMIC ANALYSIS

REF: A. GEORGETOWN A-3, B. GEORGETOWN 0390, C. GEORGETOWN 0141

SUMMARY: WEATHER HAS AGAIN BECOME THE MAJOR VARIABLE IN THE GUYANESE ECONOMY. PRODUCTION ESTIMATES FOR BOTH RICE AND SUGAR ARE BEING REVISED DOWNWARD AS A RESULT OF THE CURRENT DRY SPELL. BAUXITE OFFICIALS, ON THE OTHER HAND, ARE ATTEMPTING TO TAKE ADVANTAGE OF THE DRY TERRAIN TO MAXIMIZE PRODUCTION. HAVING DEPLETED ITS SUPPLY OF FOREIGN RESERVES, GUYANA FACES A LIQUIDITY CRISIS. INCREASED BORROWINGS, BOTH DOMESTIC AND FOREIGN, HAVE ENABLED THE GOG TO MEET SOME OF ITS COMMITMENTS. OTHER PAYMENTS, HOWEVER, ARE BEING POSTPONED--PERHAPS FOR A FEW MONTHS--UNTIL EARNINGS FROM SUGAR AND BAUXITE SALES REPLENISH THE EMPTY COFFERS. UNFORTUNATELY THE GUYANESE ECONOMY APPEARS LOCKED INTO A VICIOUS CYCLE. THE QUALITY OF MIDDLE-LEVEL MANAGEMENT AND TECHNICAL COMPETENCE IN PRODUCTIVE SECTORS OF THE ECONOMY HAS DECLINED. THIS HAS A LONG-TERM ADVERSE EFFECT ON
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MAINTENANCE, DISTRIBUTION AND PRODUCTION AND LIMITS THE POTENTIAL FOR GENERATING NEW SOURCES OF INCOME. SURPLUS CAPITAL RESERVES HAVE FLUCTUATED WITH WORLD COMMODITY PRICES, AND THE RECENT PRICE TRENDS HAVE NOT BEEN FAVORABLE FOR GUYANA. THE UNAVAILABILITY OF CAPITAL, TECHNICAL AND MANAGEMENT RESOURCES HAS PLACED A SERIOUS BRAKE ON THE DEVELOPMENT AND IMPLEMENTATION OF NEW PROJECTS. END SUMMARY.

1. OFFICIAL RICE AND SUGAR PRODUCTION ESTIMATES HAVE RECENTLY BEEN REVISED DOWNWARD. ACCORDING TO THE GOVERNMENT RICE BOARD, THE SPRING RICE HARVEST IS EXPECTED TO TOTAL APPROXIMATELY 62,000 TONS. UNOFFICIAL SOURCES, HOWEVER, ESTIMATE A 30,000-40,000 TON SPRING HARVEST. THE SPRING SUGAR CROP IS EXPECTED TO TOTAL SOME 113,000 TONS, THIS IS 24 PERCENT BELOW THE ACTUAL HARVEST FOR THE EQUIVALENT TIME PERIOD IN 1976. BAUXITE PRODUCTION, OFFICIALS CLAIM, SHOULD INCREASE. EQUIPMENT MAINTENANCE IN THE BAUXITE INDUSTRY APPEARS TO BE A PROBLEM, HOWEVER, WHICH COULD NEGATE THE OFFICIAL CLAIMS.

2. DUE TO A LACK OF FOREIGN EXCHANGE AT THE BANK OF GUYANA, IMPORTERS, WHO HAVE LOCAL CURRENCY, CANNOT OBTAIN THE FOREIGN CURRENCY REQUIRED TO MEET THEIR COMMITMENTS. IMPORTS FOR WHICH FOREIGN EXCHANGE IS LACKING ARE PLACED IN BONDED WAREHOUSES AND THE IMPORTER CHARGED STORAGE FEES UNTIL THE BANK IS ABLE TO PROVIDE THE FOREIGN EXCHANGE. SOME FOREIGN SUPPLIER FIRMS ARE RESTRICTING FURTHER CREDIT EXTENSIONS UNTIL PAST ACCOUNTS ARE BROUGHT UP TO DATE.

3. TO SYSTEMATIZE FOREIGN RESERVE ALLOCATIONS, THE GOG HAS ESTABLISHED AN IMPORT PRIORITY LIST. HEADING THIS LIST ARE FOOD ITEMS, PHARMACEUTICALS, PETROLEUM PRODUCTS AND SPARE PARTS. TO ITS CREDIT, THE GOG AND THE BANK APPEAR TO BE AVOIDING FAVORITISM IN ALLOCATING FUNDS ACCORDING TO THE PRIORITY LISTS. STATE CORPORATIONS, FOR EXAMPLE, DO NOT APPEAR TO BE FAVORED OVER PRIVATE IMPORTERS. BUT PERIODIC

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SHORTAGES PARTICULARLY IN CONSUMER GOODS ARE BECOMING FREQUENT. CUT-BACKS IN SOME GOG PROJECTS ARE ALSO EVIDENT. ROAD CONSTRUCTION HAS SLOWED. EVEN THE PACE OF WORK AND RESOURCES APPLIED TO THE TOP PRIORITY UPPER MAZARUNI DEVELOPMENT PROJECT ARE REPORTEDLY BEING REDUCED.

4. SOME GOG OFFICIALS EXPRESS OPTIMISM THAT RETURNS RECEIVED FROM SUGAR AND BAUXITE SALES IN THE COMING MONTHS COUPLED WITH FOREIGN ASSISTANCE WILL RELIEVE WHAT THEY BELIEVE TO BE A PASSING SHORT-TERM CRISIS. THUS, THE GOG (AND THE PUBLIC CORPORATIONS) IS RELYING HEAVILY ON DOMESTIC AND FOREIGN BORROWINGS TO CARRY IT THROUGH THE CURRENT "SHORT-FALL." IN THE PAST THREE MONTHS (REF A) THE BANK OF GUYANA (BOG) HAS INCREASED ITS HOLDINGS OF GOVERNMENT TREASURY BILLS. AS OF FEB. 9, THESE TOTALED G\$233 MILLION OR 66.7 PERCENT OF TOTAL BOG ASSETS. ON THE LIABILITY SIDE, OBLIGATIONS TO INTERNATIONAL FINANCIAL INSTITUTIONS AND CENTRAL BANKS HAVE INCREASED TO G\$146 MILLION. (BOG STATEMENT INDICATING HOLDINGS ON FEB.9, PUT TOTAL ASSETS, AND THEREFORE LIABILITIES, AT

G\$349 MILLION.) IN ADDITION,THE GOG IS ALSO ATTEMPTING TO RAISE MONEY THROUGH A G\$30 MILLION DEFENSE BOND SALE.

5. AGAINST THE BACKDROP OF THE GOOD YEARS OF 1974 AND 1975, ONE COULD INTERPRET GUYANA'S CURRENT ECONOMIC DIFFICULTIES AS A SHORT-TERM CRISIS. IN OUR JUDGMENT, HOWEVER, SYMPTOMS OF A LONG-TERM DETERIORATION ARE EVILDSOT. INFRASTRUCTURE, MANAGEMENT, DISTRIBUTION AND PRODUCTIVITY DEFICIENCIES PLAGUE THE ECONOMY AND LIMIT GROWTH. A LACK OF WATER, DUE FIRST TO DROUGHT AND SECONDLY TO FAILURE OF THE IRRIGATION SYSTEM TO FUNCTION ADEQUATELY, HAS STUNTED THE CURRENT RICE CROP. THE IRRIGATION FAILURE WAS DUE TO FAULTY MAINTENANCE AND NOT ENOUGH PUMPS. REPORTEDLY, 40 PERCENT OF THE GLASS THAT IS BEING SHIPPED TO GEORGETOWN FROM THE LOCAL FACTORY BREAKS IN TRANSIT BECAUSE OF THE POOR ROADS. FISH SOLD TO THE GOG BY SHRIMPERS FOR 15 GUYANESE CENTS PER LB. AND
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INTENDED TO BE SOLD ON THE LOCAL MARKET FOR 35 GUYANESE CENTS PER LB. OFTEN ROTS ON THE WHARF BECAUSE OF TRANSPORT PROBLEMS.

6. NO CLEAR-CUT PLANS ARE EVIDENT TO CORRECT EXISTING PROBLEMS OR TO REVITALIZE THE ECONOMY OTHER THAN THROUGH THE GIGANTIC UPPER MAZARUNI HYDRO-ELECTRIC AND DEVELOPMENT SCHEME, ALTHOUGH THE PRIME MINISTER'S MESSAGE TO THE NATION ON FEB. 23 (REFTEL) MADE CLEAR THAT THE GOG IS AWARE OF THE SERIOUSNESS OF THE PROBLEM. REALISTIC APPROACHES TO MORE IMMEDIATE PROBLEMS APPEAR TO BE SLOW IN COMING, PRIMARILY BECAUSE OF A LACK OF MATERIAL RESOURCES AND INADEQUATE MANAGEMENT AND TECHNICAL PERFORMANCE. THIS, OF COURSE, IS A CLASSICAL "CHICKEN AND EGG" PROPOSITION AND THE GOG TO DATE HAS NOT BEEN ABLE TO BREAK OUT OF THE DETERIORATING CYCLE. SOME GOG OFFICIALS APPEAR TO BE HOPING THAT "NEXT YEAR" WORLD PRICES FOR TRADITIONAL GUYANESE EXPORTS WILL IMPROVE AND THAT WINDFALL PROFITS WILL ASSURE THE COMPLETION OF THE UPPER MAZARUNI SCHEME. UNFORTUNATELY FOR GUYANA, "SHORTFALLS" APPEAR TO BE OUTNUMBERING THE "WINDFALLS."
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